

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN INVESTIGATION OF THE SOURCES OF SUPPLY) | |
| AND FUTURE DEMAND OF KENTUCKY-AMERICAN) | CASE NO. 93-434 |
| WATER COMPANY) | |

O R D E R

On April 3, 1995, Kentucky-American Water Company ("Kentucky-American") and Chetan Talwalkar, an intervenor, filed petitions for rehearing of the Commission's March 14, 1995 Order. In that Order the Commission set forth two major findings: 1) Kentucky-American's water demand projections, as well as those sponsored by intervenors, were within the range of reasonableness; and 2) due to planned repairs to the Kentucky River locks and dams an accurate assessment of its safe yield cannot be determined until a proposed basin-wide reassessment is performed.

Kentucky-American challenges the finding of need for a further assessment of the Kentucky River, urging that record evidence was misinterpreted and events since the hearing indicate that a reassessment will show a drop in the safe yield. In the alternative, Kentucky-American requests that this investigation remain open to monitor the progress of the reassessment and then consider its conclusions. The Commission notes that this case was an investigation of Kentucky-American's sources of supply and future demand, not an application for a certificate of convenience and necessity to construct utility facilities. Should Kentucky-

American believe that sufficient evidence exists to demonstrate the need for a supplemental source of supply, authority to construct can be requested at any time by filing an application under KRS 278.020. Although considerable time, effort and resources have already been expended by all parties, keeping this investigation open to review a study projected to be completed by mid-1996 does not appear to be disadvantageous to any party.

Talwalkar's petition does not challenge the finding that a basin-wide reassessment of the Kentucky River is needed. Rather, he requests clarification or deletion of four findings relating to the Commission's discussion of demand projections. First, he challenges the finding, at page 5, that, "[A]ll of the demand projections in this case indicate a supply deficit under a drought of record scenario. . . ." Talwalkar argues that the demand projections set forth in Attachment A to his testimony were not intended to be his projections of demand but merely an attempt to point out and correct errors in Kentucky-American's projections. He claims that if he were to project demand, he would utilize a different methodology.

The Commission finds this argument to be a distinction without a difference. The decision in this case must be based on the evidence of record, not speculation on the demand that might have been calculated or the methodology that might have been used. The fact remains that the demand projections set forth in Talwalkar Attachment A, representing corrections of Kentucky-American's

forecast, are within the realm of reasonableness, as are the demand projections submitted by others.

Talwalkar also claims that none of the demand projections can show a supply deficit because the Commission concluded that the safe yield of the Kentucky River cannot be accurately determined. Clearly, the Commission did conclude that a determination of the need for a supplemental source of supply must await a renewed assessment of the Kentucky River. However, the record is equally clear that the Harza Engineering assessments of the Kentucky River demonstrate that during a drought of record a supply deficit will exist under all of the demand projections submitted in this case. Until the Kentucky River is reassessed, the demand projections must be reviewed in light of the river's currently known yield.

Second, Talwalkar objects to the finding that Kentucky-American's demand forecasting methodology is "state of the art," arguing that it is not mathematically sound enough or robust enough for that designation. He supports this argument by citing a number of the forecast inputs which he claims are understated, excessive or inconsistently applied. Such criticisms are not new; they mirror those set forth in his direct testimony.

As the trier of fact, it is the Commission's role to weigh the evidence and make findings of fact. In performing this role, the Commission determined that Kentucky-American's demand projections were within the realm of reasonableness and were produced by a state of the art methodology. Talwalkar has cited nothing to persuade us to the contrary.

Third, Talwalkar seeks deletion of the finding that the industrial class has a 0.0 elasticity based on its indication that all available conservation measures have already been adopted. The request is based on a claim that no record evidence exists to support the finding. To the contrary, Kentucky-American presented credible evidence on this issue, Naumick Direct Testimony at 10, and the Commission was persuaded to so find. The absence of more detailed information regarding industrial customer interviews does not render the evidence any less credible.

Fourth, Talwalkar challenges the finding that the potential reduction in outdoor water use by single family residential customers is not significant, even though it has a greater elasticity of demand than indoor use, because outdoor use accounts for only 15 percent of single family residential use. He claims that since the 15 percent figure represents total annual average, not peak day average, there is a significant potential to reduce the maximum day or summertime peak demand.

The Commission well recognizes the need for Kentucky-American to reduce its maximum day demand since this is what is driving the need for additional water treatment capacity. However, the need for a supplemental source of supply is not based on daily peak demand but, rather, average day demand over a period of 183 days, which is the projected length of a drought. Reducing peak day demand will have little impact on average day demand over a six month period.

IT IS THEREFORE ORDERED that:

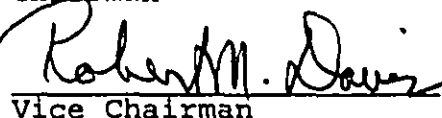
1. Kentucky-American's petition for rehearing be and it hereby is granted to the limited extent that the Commission's March 14, 1995 Order shall be modified to provide that this investigation shall remain open to await a new safe-yield analysis of the Kentucky River.

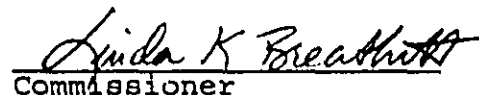
2. Talwalkar's petition for rehearing be and it hereby is denied.

Done at Frankfort, Kentucky, this 24th day of April, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director